

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL)
REVISION OF THE UNIVERSAL SERVICE) **CASE NO. GNR-T-10-04**
FUND SURCHARGES TO BECOME)
EFFECTIVE OCTOBER 1, 2010.) **ORDER NO. 32058**
_____)

BACKGROUND

At the direction of *Idaho Code* § 62-610, the Commission established a universal service fund (USF) for the purpose of maintaining the universal availability of local telephone exchange service at reasonable rates and to promote the availability of message telecommunications service (MTS) at reasonably comparable rates throughout the state of Idaho. The USF is funded through a statewide end-user surcharge on local exchange services and intrastate MTS and Wide Area Telephone Service (WATS) type services. Each year the USF Administrator files an Annual Report with the Commission detailing the program activities for the previous year and recommending surcharge rates to meet the next year's funding requirements. On or before September 1 of each year the Commission issues an Order to establish statewide end-user surcharges to be in effect for the 12 months beginning October 1 following issuance of the Order.

THE 2010 ANNUAL REPORT

On July 15, 2010, the Administrator of the Idaho USF filed an Annual Report to the Commission for the period of July 1, 2009 through June 30, 2010, including a proposed budget for 2010-2011 fiscal year. Staff reviewed the calculations, supporting documentation, and recommendations contained in the Administrator's Annual Report.

The current USF monthly surcharge rates are \$.10 per residential line, \$.17 per business line, and \$.003 per intrastate MTS/WTS billed minute, established in Order No. 30894. Surcharge revenue for the past year totaled \$1,734,098. Fees on local exchange services contributed \$932,556 (54%), and \$801,542 (46%) was contributed by MTS/WATS services. This is a decrease in local exchange surcharge revenue of approximately \$36,000 (from

\$968,594 in 2009), and an increase in MTS/WATS surcharge revenue of approximately \$111,000 (from \$690,061 in 2009).¹

As of May 1, 2010, telephone companies reported an inventory of 328,592 residential lines and 219,752 business lines, for a total of 548,344 lines. This is a net decrease in lines of approximately 47,931 (8%) with residential lines decreasing by nearly 11% and business lines decreasing by almost 2%. Long-distance service providers reported intrastate MTS/WATS total billed minutes of 284,863,207 compared to the 2009 reported minutes of 304,154,937, a 6% decrease.

Pursuant to Commission Order No. 30894, the annual disbursements to the eight qualifying incumbent local exchange carriers (ILECs) decreased by approximately \$122,456 from \$1,943,523 in 2009 to \$1,821,067 for the year ending June 30, 2010. The year-end USF cash balance, after bank charges, administrative expenses and interest received, was \$104,258. For the next fiscal year, beginning July 1, 2010, the annual disbursements to the qualifying ILECs are expected to total \$1,698,610, unless the Commission approves changes to the USF funding.

The Administrator proposed an annual administrative budget of \$24,100, including the Administrator's salary and other expenses, such as office supplies and bank and brokerage fees, as well as an audit. This year's increase in the administration budget of \$6,745 includes the cost of a triennial audit to be completed by the end of the next fiscal year.

The Administrator is required to review the residential, business, and access rates of the recipient ILEC companies. IDAPA 31.46.01.106. To be eligible to receive USF funding pursuant to Rule 106, a telephone company's average one-party, single-line rate must equal or exceed the 125% statewide weighted average line rate and its average rates per minute for MTS/WATS access rate must exceed 100% of the statewide weighted average access rate. If the difference in the company's current average rate and the statewide average threshold rate is greater than three percent (3%), and the difference in the annual revenue associated with the company's current rate and the revenue associated with the statewide average threshold rates is over \$6,000, the company may need to revise rates to meet or exceed the statewide threshold rates. The Commission on its own motion may by Order change a telephone company's USF

¹ The revenue from the MTS/WATS surcharge increased despite a reduction in total MTS/WATS billed minutes in each of the last several years. The increase in revenue this year is an anomaly resulting from different schedules for reporting MTS/WATS data and collecting the surcharge revenues.

funding in connection with the recalculation of the statewide average rates. See IDAPA 31.46.01.06.04.

In response to the Administrator's 2009 USF Annual Report, the Commission issued Order No. 30894 on September 2, 2009. The eight ILEC companies receiving USF disbursements were given notice that their residential rates needed to increase to meet the USF eligibility requirements. By September 1, 2010, all eight companies will have complied with this Order, thus maintaining their USF funding eligibility.

In the current annual report, the Administrator recommended no adjustments to residential or business rates of the recipient companies. The Administrator recommended an adjustment to the switched access rate of three companies.

ADMINISTRATOR'S RECOMMENDATIONS

The Administrator reviewed four funding options for the projected annual disbursements and expenses for the coming year, as follows:

Option 1: Status Quo – If current surcharge levels are maintained and no additional USF funding is authorized, the fund will decrease by approximately \$25,516 by the end of the year. The 2010-2011 USF authorized disbursements will be \$1,698,610 and the fund balance would be approximately \$78,742 on June 30, 2011. Surcharge revenue contributions would be approximately 50% from MTS/WATS services and 50% from local exchange services.

Option 2: Adjust Funding to Meet Statewide Averages and Maintain Surcharge Rates
– With this option, the current surcharge rates are maintained and the access rates for ATC Communications, Inland Telephone Company, and Midvale Telephone Company are slightly increased. The USF distribution to these three companies would decrease by a corresponding amount. Under this proposal the annual USF disbursements would decrease by \$31,541 from \$1,698,610 to \$1,667,069 and the fund balance on June 30, 2011 would be approximately \$110,283. With this option, MTS/WATS services would contribute 50% of the total surcharge revenue and local exchange services' contribution would be 50%.

Option 3: Adjust Funding to Meet Statewide Averages and Increase Surcharge Rates
– In this scenario, the Administrator reviewed the effect of reducing the USF disbursements as outlined in Option 2, and increasing the surcharge rates to \$.12 per residential line, \$.19 per business line, and \$.0035 per intrastate MTS/WATS billed minute. The fund balance would be

approximately \$384,318 on June 30, 2011. MTS/WATS service would contribute 49% of the surcharge revenue and local exchange services would contribute 51%.

Option 4: Maintain Funding Levels and Increase Surcharge Rates – In this scenario, the surcharge rates would be increased to \$.12 per residential line, \$.20 per business line, and \$.004 per intrastate MTS/WATS billed minute. MTS/WATS service would contribute 53% and local exchange services would contribute 47%. The fund would have a balance of approximately \$521,578 on June 30, 2011.

The Administrator assumes disbursements and the surcharge revenue sources (line count and billed minutes) will be relatively stable during the next year. If the surcharge rates remain unchanged, the fund balance will decrease to \$78,742, a figure that is approximately one-half the amount required for a single month disbursement to the eight USF recipients. The Administrator believes the surcharge rates need to be increased for the USF fund to meet existing obligations, and to create a reserve balance to cover approximately three months of disbursements. The Administrator thus recommended that the Commission increase the monthly USF surcharge rates to \$.12 per residential line, \$.19 per business line, and increase the intrastate MTS/WATS surcharge to \$.0035 per billed minute. The Administrator also recommended that ATC Communications, Inland Telephone Company, and Midvale Telephone Company increase their switched access rates. With this option, the USF fund will be able to meet all obligations and provide a reserve balance on June 30, 2011 of approximately \$384,318.

Staff agreed with the Administrator's recommendation to increase surcharge rates to maintain stability in the USF fund. Staff opposed the recommendation to increase the switched access rates of three companies.

COMMISSION FINDINGS

After reviewing the Administrator's report and recommendations, the Commission finds that it is necessary to increase the USF surcharges to ensure adequate resources are available to meet current funding requirements, and to allow for a reasonable reserve in the USF account. Without an increase in the surcharges, the fund will decrease to an unacceptable level, and could jeopardize disbursements to the eight companies that receive USF funds. Accordingly, the Commission finds it reasonable and prudent to increase the monthly USF surcharge rates to \$.12 per residential line, \$.19 per business line, and to increase the intrastate MTS/WATS surcharge to \$.0035 per billed minute.

The Commission does not believe the slight adjustment to the switched access rates for ATC, Inland, and Midvale recommended by the Administrator is necessary. The impact of an increase or decrease in access rates is uncertain over a 12-month period, as demonstrated by the sharp increase in MTS/WATS surcharge revenues during the past year. The fluctuation in the number of lines and intrastate MTS/WATS minutes is unpredictable, and it is not possible to know whether wide fluctuations are caused by changes in consumer calling patterns or by anomalies in company reporting. Likewise, it is difficult to determine the amount of adjustment a company must make to the access rate for that company to stay at or below the threshold of 100% statewide weighted average rate.


Although the past few years have seen gradual decreases in the numbers of local residential and business lines, the Administrator anticipated no significant changes in the coming year that will substantially impact the USF fund. With increases to the monthly USF surcharge rates to \$.12 per residential line, \$.19 per business line, and an increase of the intrastate MTS/WATS surcharge to \$.0035 per billed minute, the USF should have a reasonable reserve balance of approximately \$352,777 on June 30, 2011.

ORDER

IT IS HEREBY ORDERED that the monthly USF surcharge rate for residential lines is increased to \$.12 per residential line, the monthly USF surcharge on business lines is increased to \$.19 per business line, and the USF surcharge on MTS/WATS is increased to \$.0035 per minute, effective October 1, 2010.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

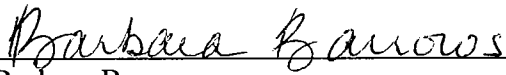
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31st day of August 2010.


JIM D. KEMPTON, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Barbara Barrows
Assistant Commission Secretary

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